

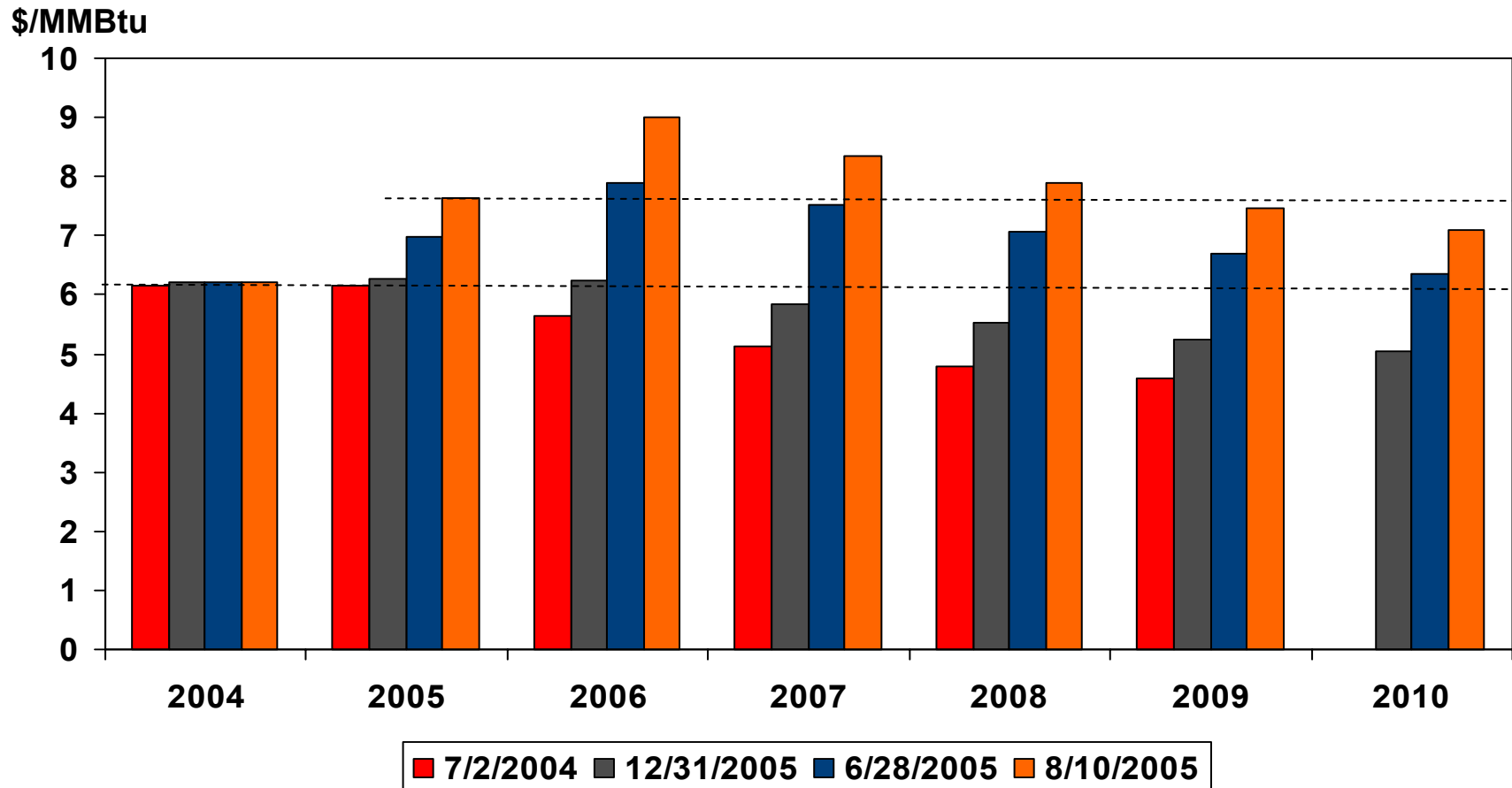


Energy Price Issues

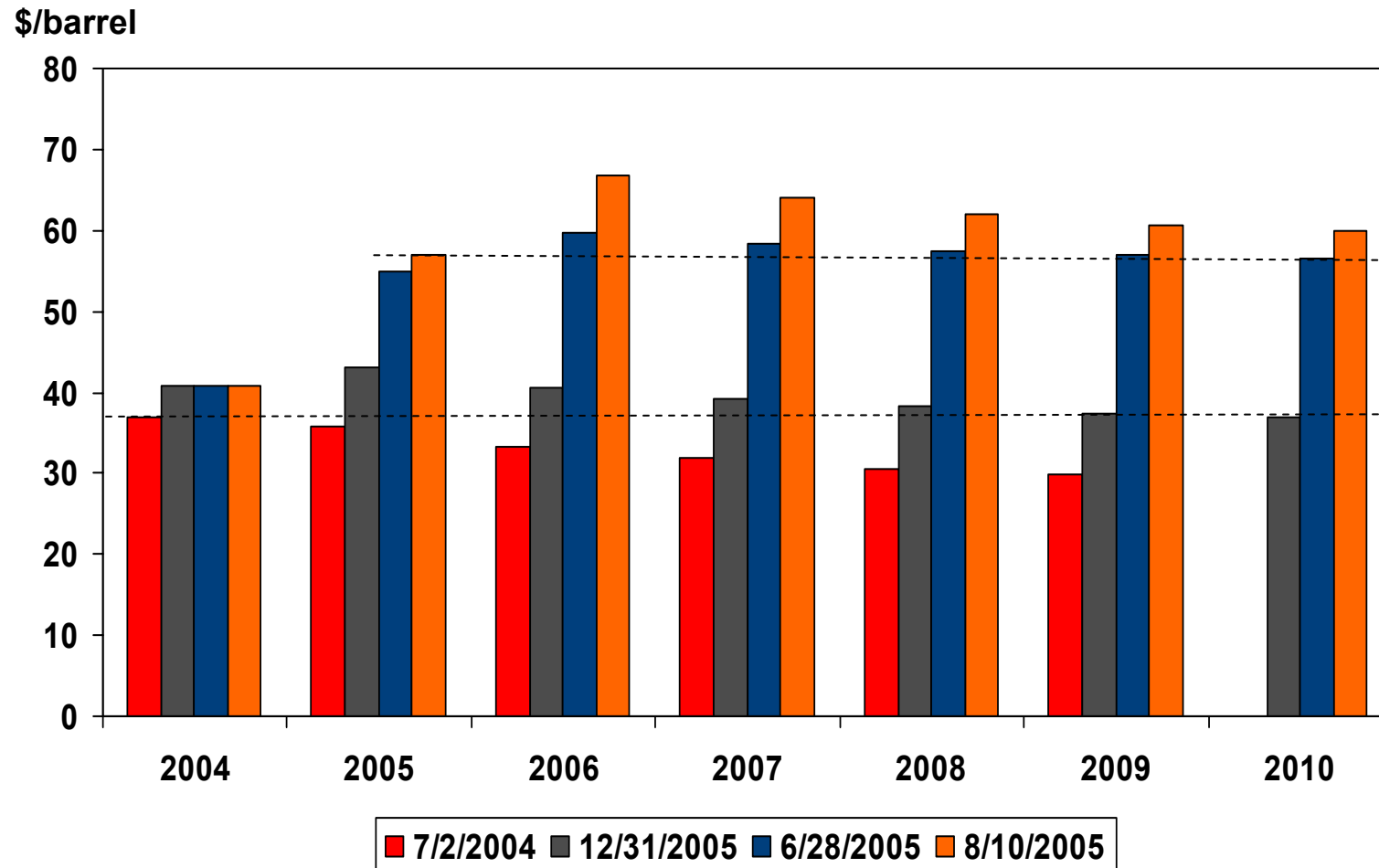
Living with the “Princess” Rules

Thomas J. Woods
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Energy 2005
Long Beach, California
August 16, 2005

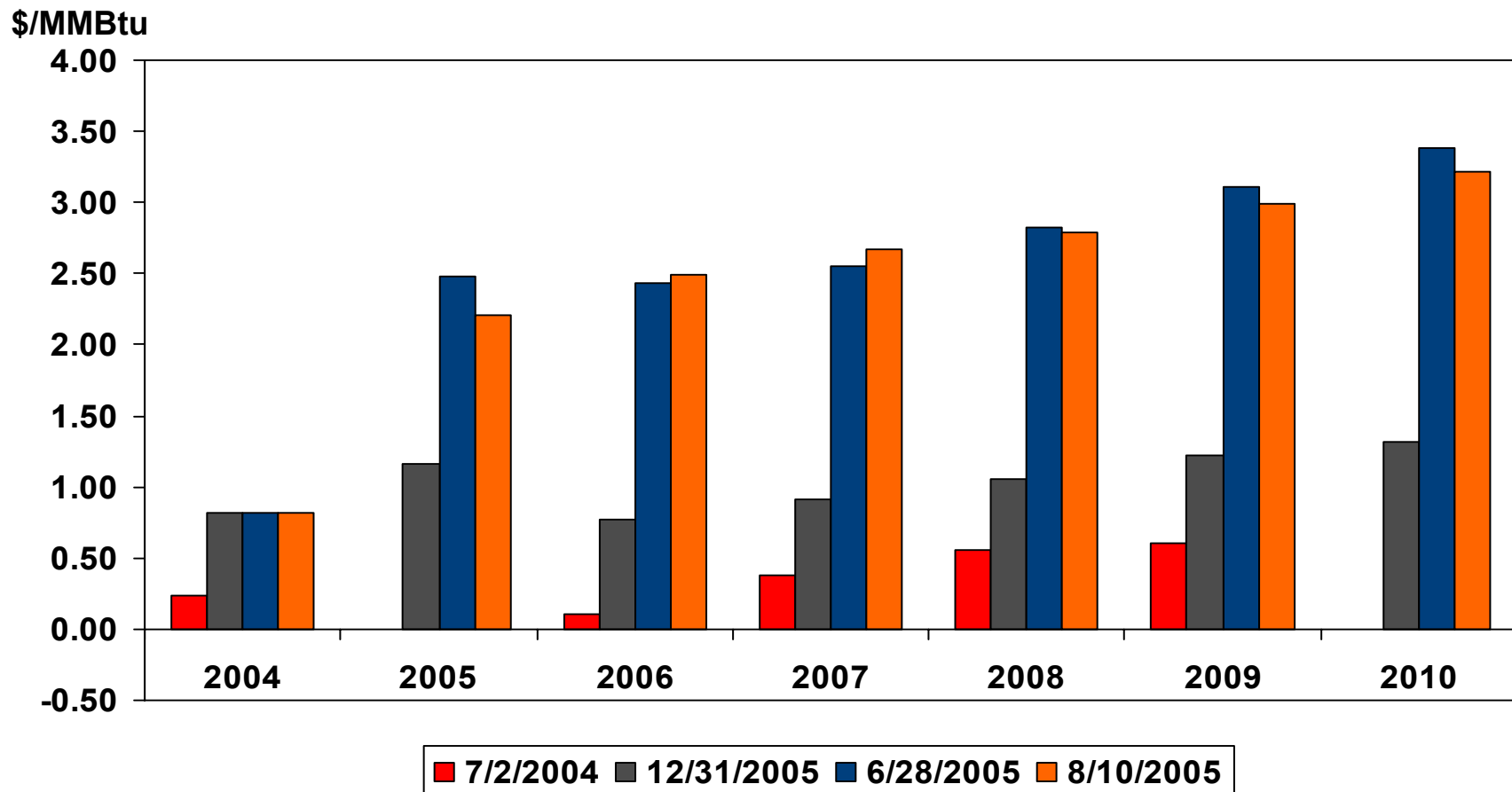
Annual NYMEX Henry Hub Futures



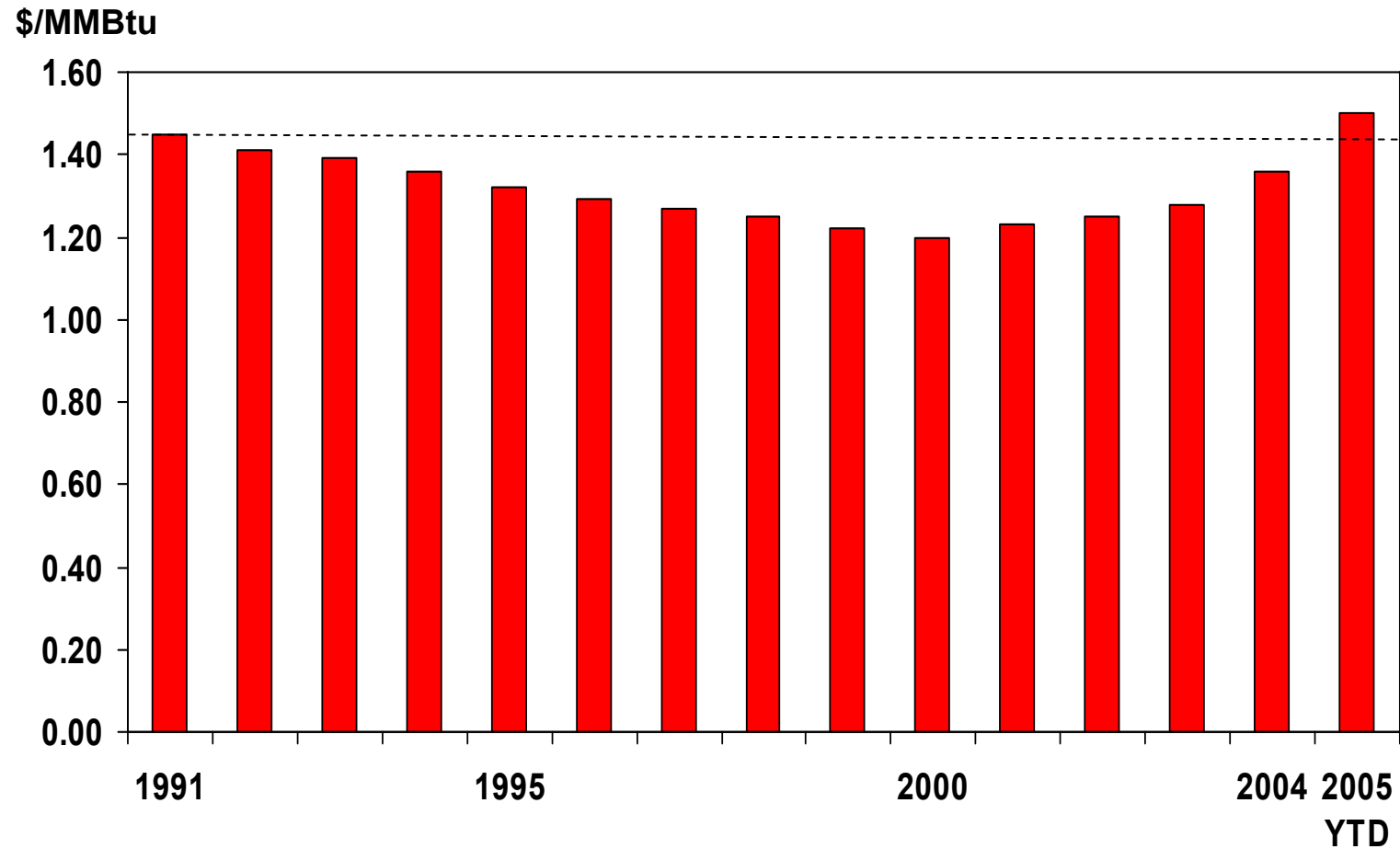
Annual NYMEX Light Oil Futures



Light Oil – Henry Hub Differentials Annual NYMEX Futures

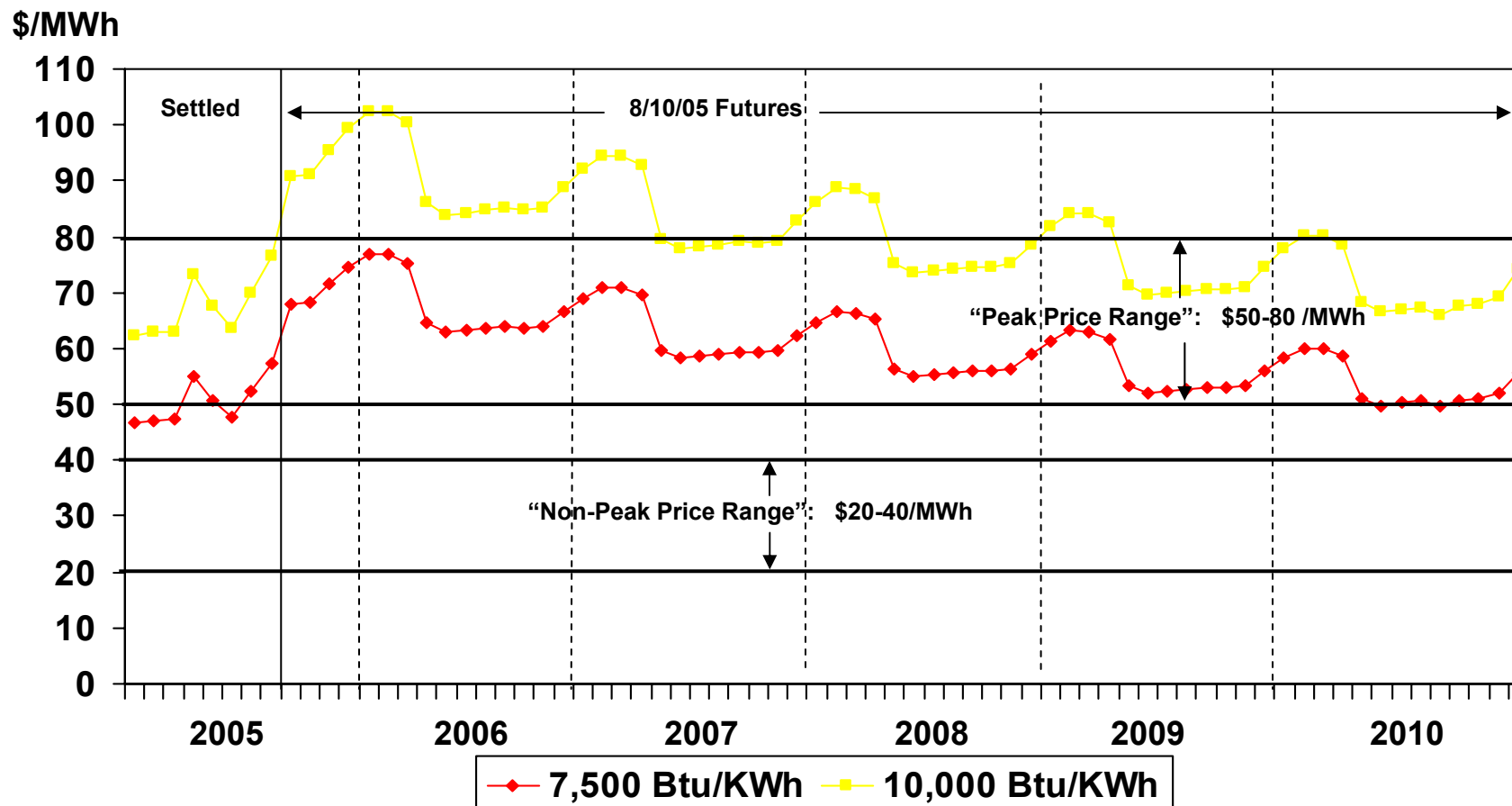


Average U.S. Coal Prices to Generators



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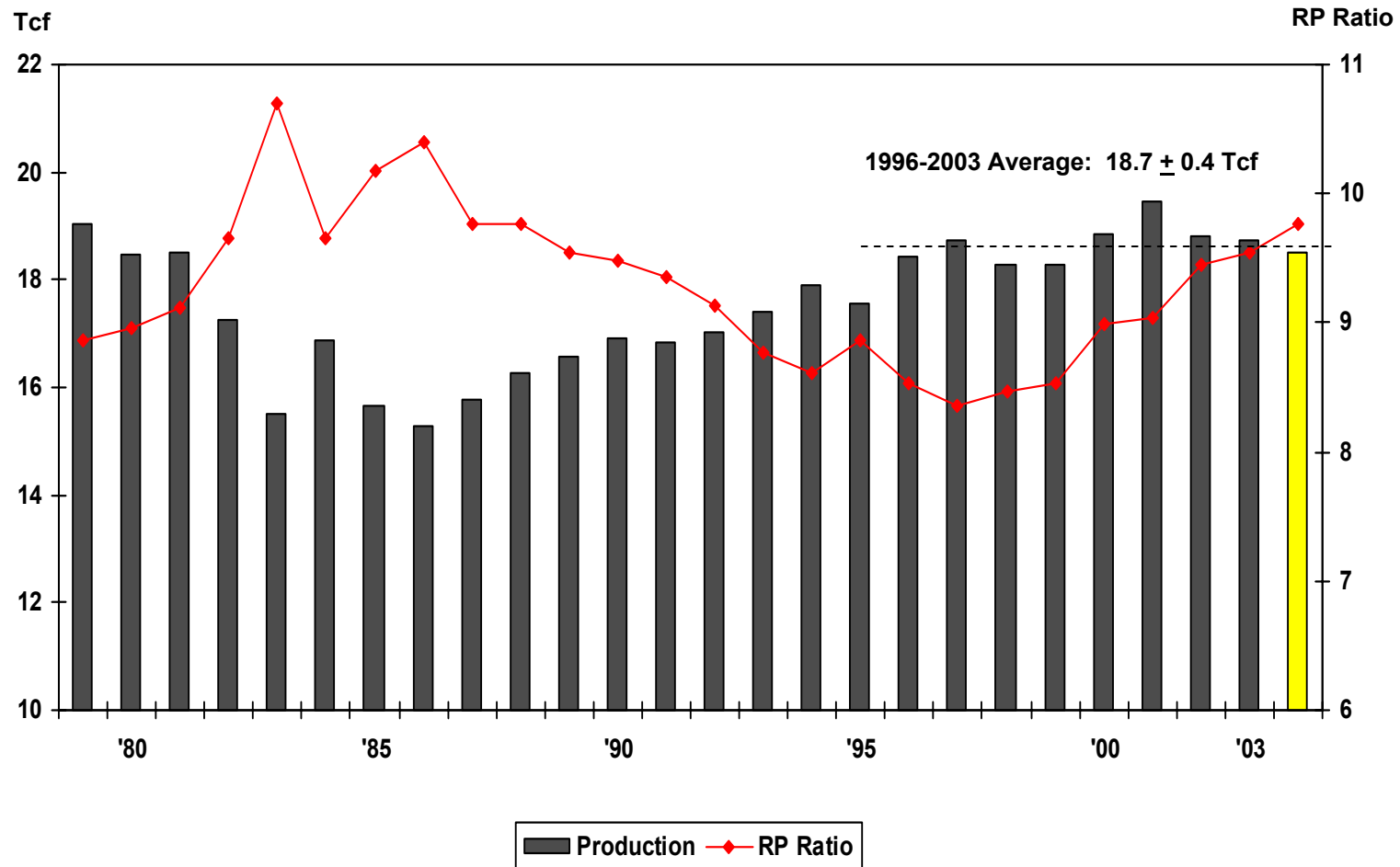
Gas - Fuel Electricity Costs (NYMEX Gas Futures as of 8/10/05)



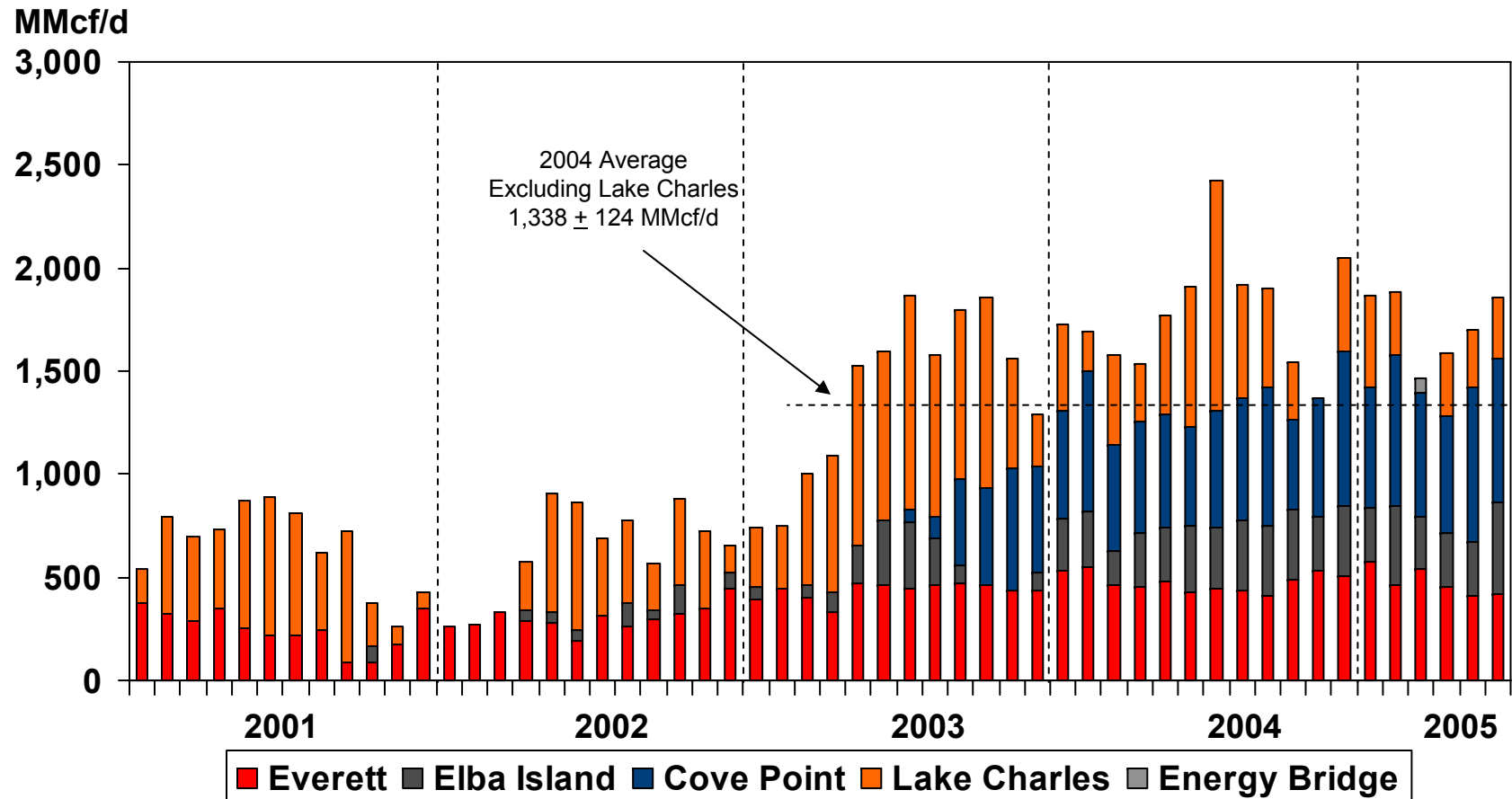
ENERGY PRICE CONTEXT

- Strengthening Market Expectations for Higher Long-Term Oil and Gas Prices
 - Gas Prices above \$7/MMBtu
 - Oil Prices near or above \$60/barrel
- Coal Prices Beginning to Grow
- Gas Prices Unlikely to Decline as Rapidly as Oil Prices
- Strong Upward Pressures Developing on Electricity Prices
- Sustained, Large Declines in Prices Unlikely until Sustained Easing of Supply/Demand Balance **and** Growing Supply

Lower-48 Gas Production

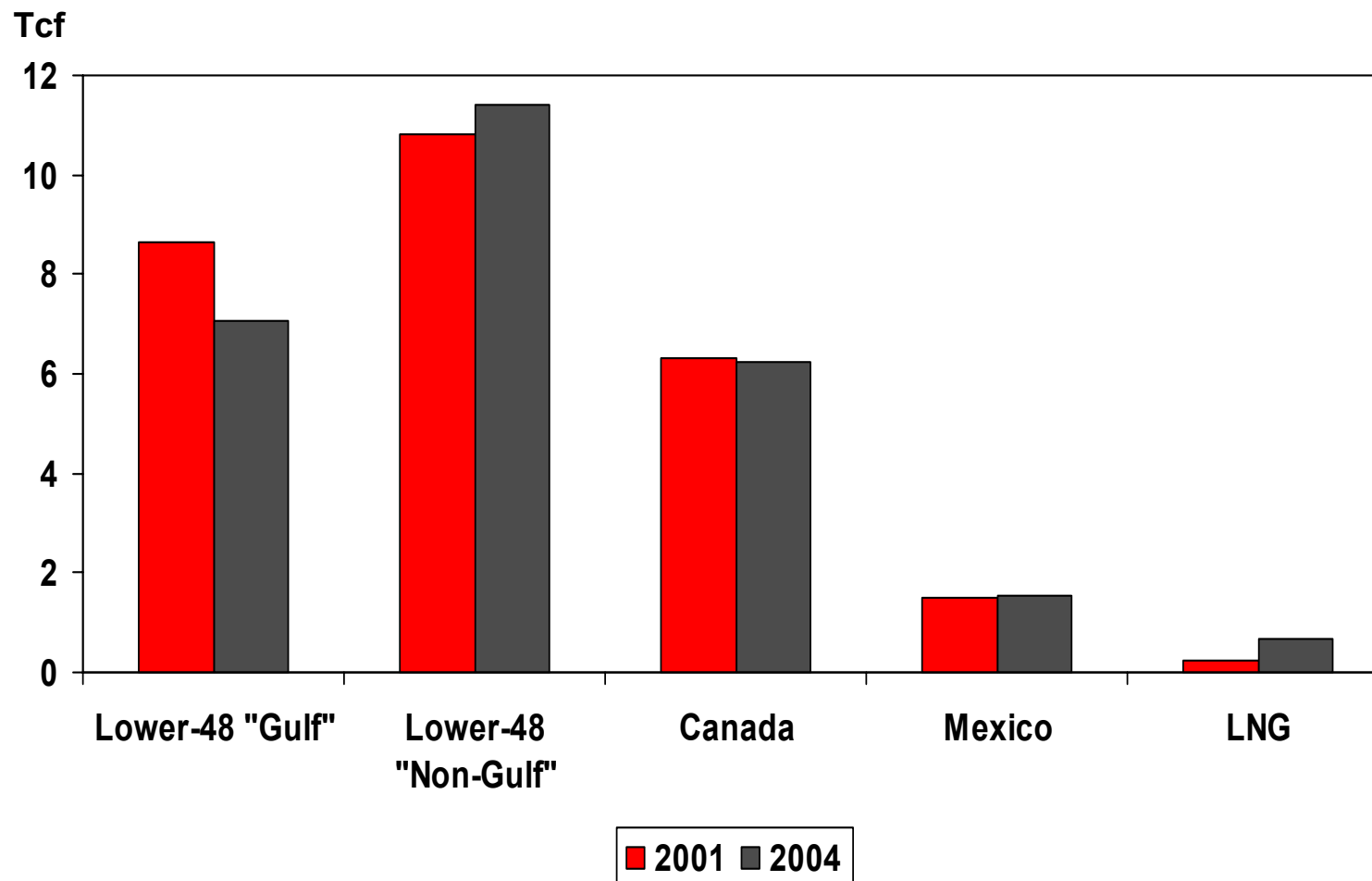


U.S. LNG Imports

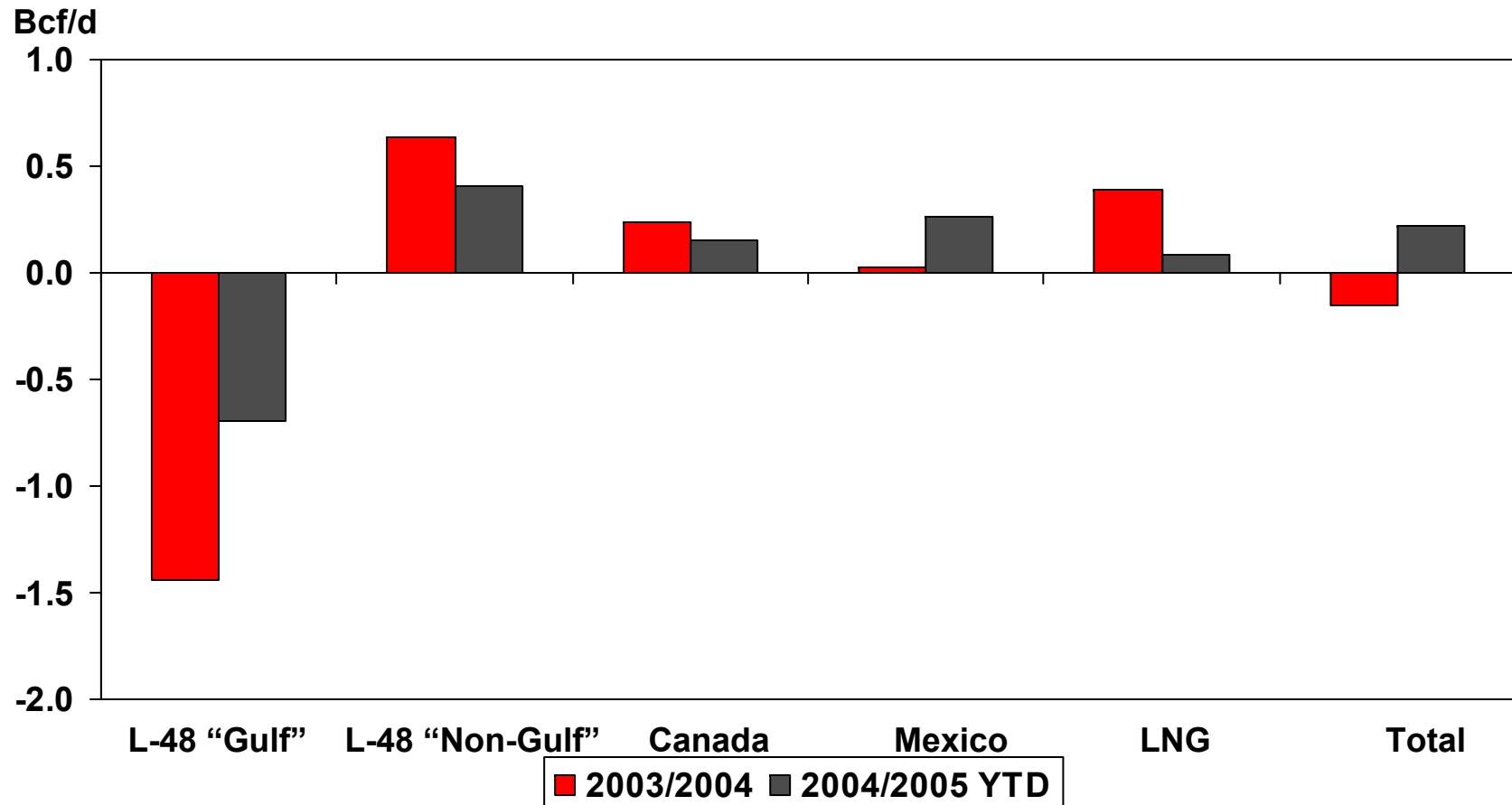


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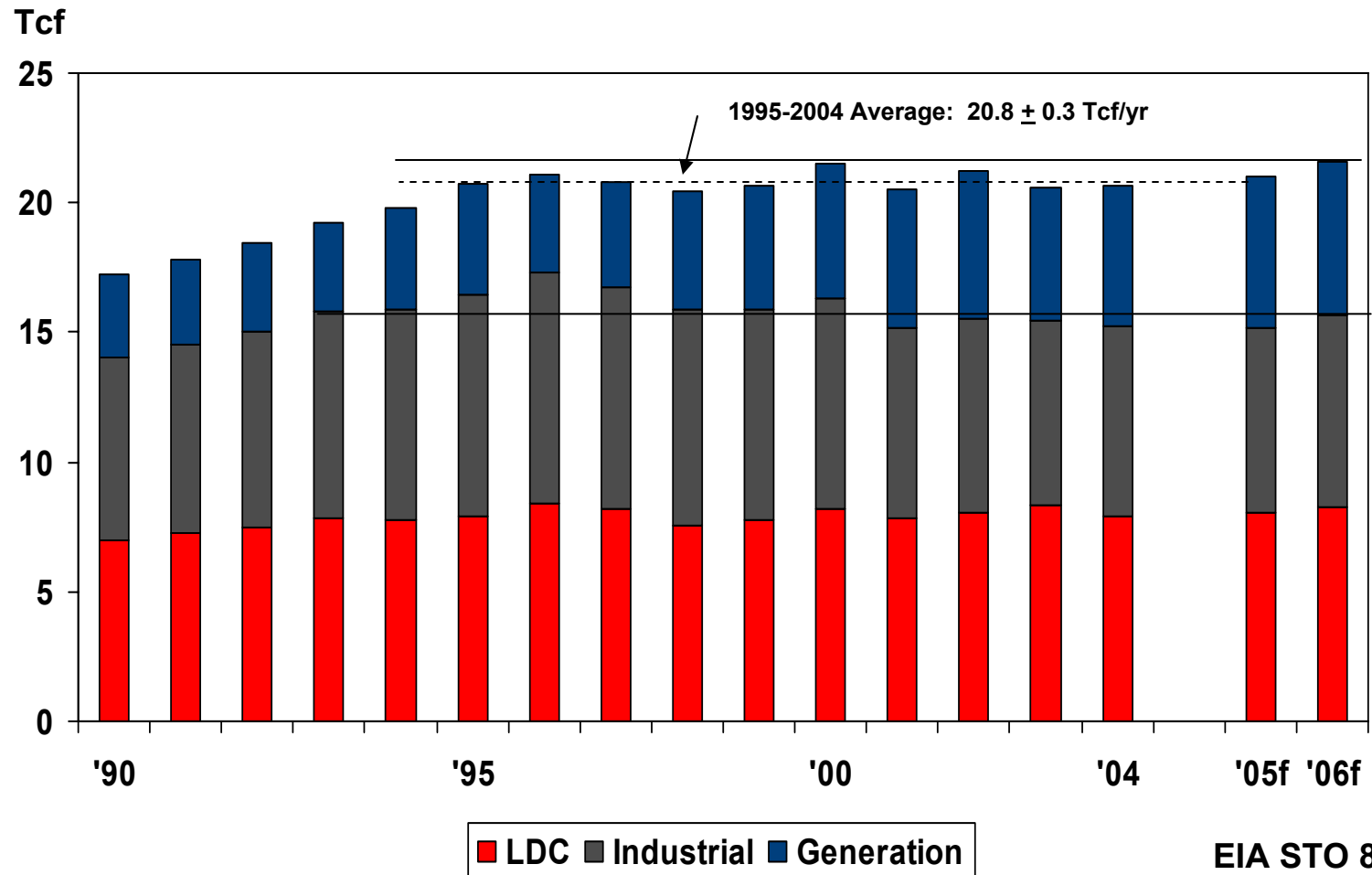
Changes in North American Gas Supply 2001-2004



Changes in North American Gas Supply



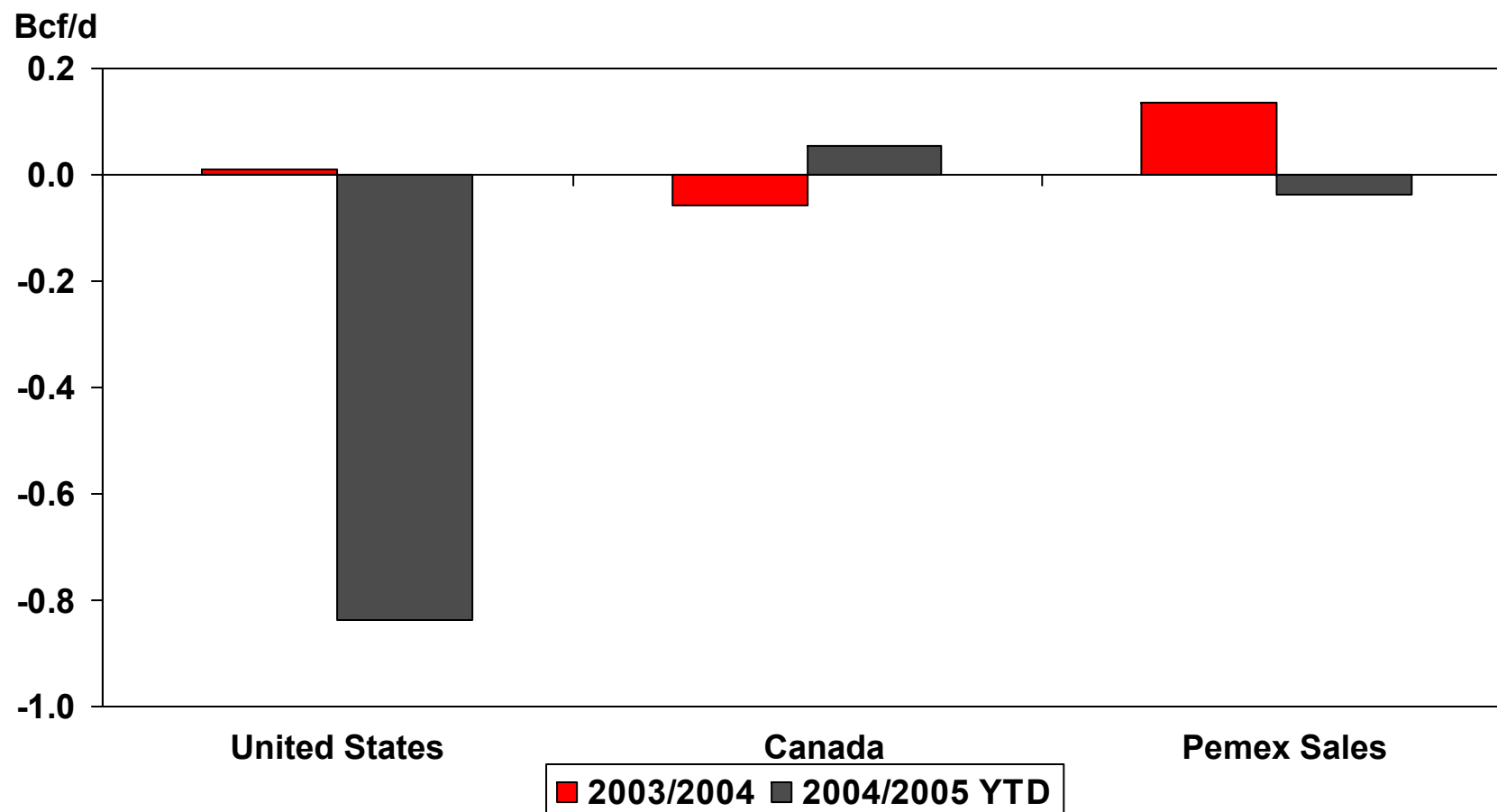
U.S. Gas Sales



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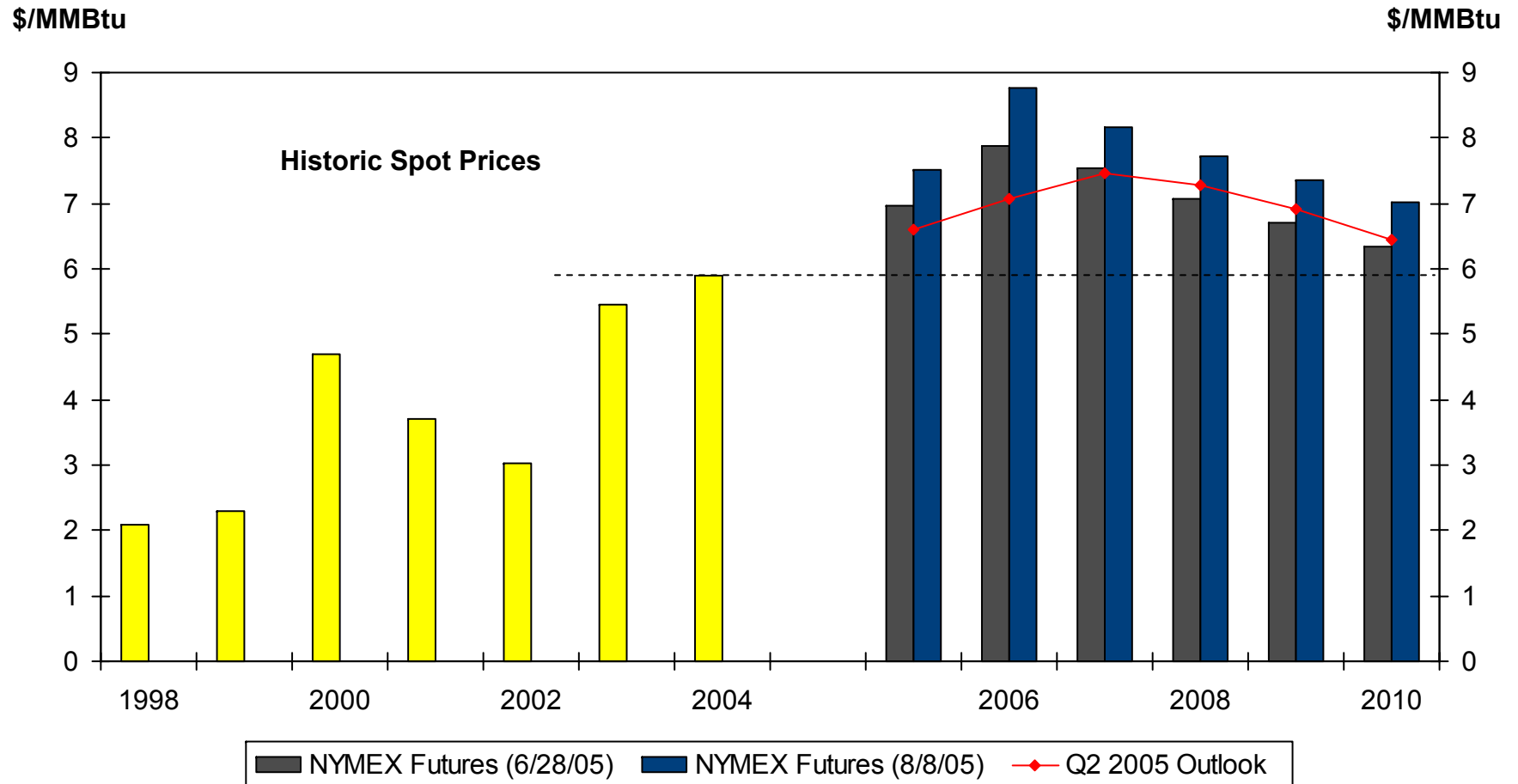
Change in North American Gas Sales



GAS MARKET CONTEXT

- North American Gas Supply/Demand Balance Possibly Easing
- Improving Supply Prospects due to Growing LNG Imports and Reserves Inventory
- Near-Term Gas Sales Growth Limited, but Market Expectations Different
- Until Gulf Coast Gas Producers Become Price Takers, not Price Setters, Upward Pressures on Gas Prices Unlikely to Ease
- Critical Challenges
 - Surviving Near-Term without Compromising Long-Term
 - Identifying Better Times to Buy Gas and/or Electricity

Average Annual Henry Hub Prices



FUTURE MARKET FACTORS

- Some **Intermittent** Downward Pressures on Near-Term Gas Prices Possible, but...
- Possible Jump in Electricity Prices for Some Regions
- Electricity Possible Option to Alleviate Rising Energy Bills in Some Regions
- Critical Need for Lower Prices

Increasing Supply at Lower Prices

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Market Cannot Change “Princess”
It Can Only Ignore “Her”

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